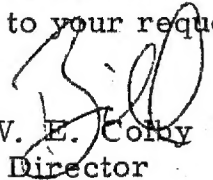


<p>MEMORANDUM FOR: The Honorable James R. Schlesinger The Secretary of Defense</p>	<p>Executive Registry 873-6728/1</p>
<p>Jim--</p>	
<p>In a conversation we had earlier this month on the defense share of Soviet GNP, you asked that we look into this matter further and assess the effects of variations in computation you suggested.</p>	
<p>The attached memorandum, prepared by the Offices of Economic and Strategic Research, responds to your request.</p>	
<p> W. E. Colby Director</p>	<p>27 OCT 1973 (DATE)</p>

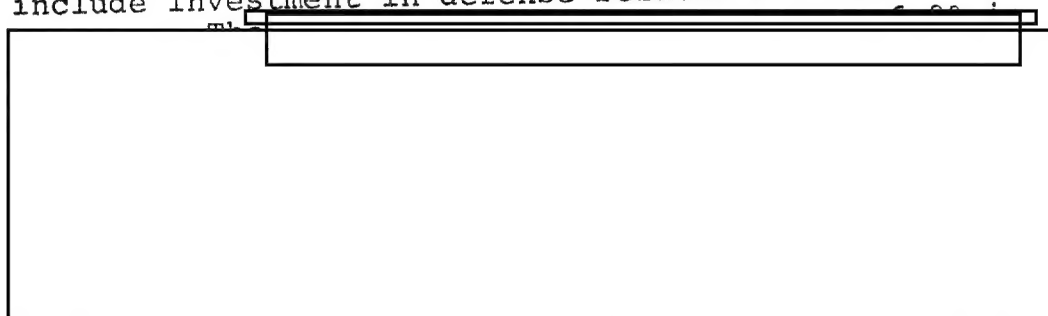
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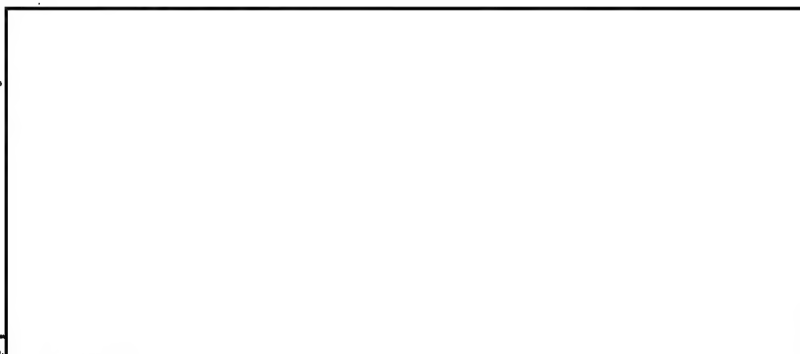
MEMORANDUM

The Share of Defense Spending
in Soviet Gross National Product

1. CIA estimates the share of Soviet defense spending in gross national product (GNP) in 1971 at about 6% in Soviet prices. This estimate includes only direct outlays on defense programs and does not include investment in defense-related sectors of the



2. The CIA estimate of Soviet defense spending follows standard Western accounting practices. The definition of defense spending includes only the actual outlays for men, materials, and equipment; it does not make allowances for possible underpricing in military procurement or for the fact that conscripts are paid much less than they could earn in most alternative employment. Measuring defense spending in this way has the advantage of permitting international comparisons of military expenditures. Nevertheless, defense spending, when limited to actual outlays, does not fully reflect the opportunity costs of the resources used in support of military programs and is therefore an imperfect basis for estimating the economic burden of defense.



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